

NCUA News

BOARD ACTIONS - OCTOBER 22, 1998

NCUA Board Votes to Return \$118 Million to Credit Unions

The NCUA Board voted October 22 to return a 4.125 percent dividend of \$118 million from the overcapitalized National Credit Union Share Insurance Fund. The Board also voted to waive the 1999 insurance premium, saving credit unions a \$260 million assessment, and the Board voted to return \$762,550 to the Share Insurance Fund that was spent to cover NCUA operating expenses over and above the sanctioned 50 percent transfer rate.

Dividend and Premium Considerations

On October 30, 1998, the Share Insurance Fund returned its fourth consecutive and largest \$118 million dividend to credit unions.

When the Board voted Oct. 22, the Fund equity to insured shares ratio was 1.32 percent. Without the dividend, the equity ratio would have risen to 1.34 percent by year end based on the Fund's projected net income of \$166 million. By statute, the Fund must be at or below a 1.3 percent equity ratio by each December 31.

Through the end of September, 12 credit unions had failed in 1998, costing the Fund \$2.6 million. These low closure and cost rates closely track recent history. For the past three years, the Fund's net income has increasingly exceeded total expenses. Last year, and once again this

year, the Share Insurance Fund's net income will outpace expenses by over \$100 million.

"This speaks volumes for the soundness of this cooperative system," said NCUA Chairman Norman E. D'Amours. "Credit union member-owners should be extremely proud of the fiscally-responsible ways their financial institutions are being operated."

The excellent condition of credit unions and limited costs to the Fund negate the need for a credit union premium in 1999.

Since the Share Insurance Fund was capitalized in 1985, approximately \$345 million has been refunded to credit unions in the form of dividends and only one insurance premium has been assessed.

Funds Returned to NCUSIF, 50 Percent Transfer Rate Reaffirmed

The NCUA Board also voted to return \$762,550 borrowed from the Share Insurance Fund last December to help defray the cost of the corporate credit union program.

Corporates' Operating Fee Unchanged

The NCUA Board voted to retain the current corporate credit union operating fee based on the recommendations of a

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NCUA Will Soon Make Changes to The Fund

Normally, each year in October the NCUA Board reviews the equity level in the Fund to determine if a dividend is necessary and if credit unions should pay a premium in the upcoming year. The Share Insurance Fund's current form of operation was structured by Public Law 98-369 in 1984. The Fund will continue to operate under this structure until Dec. 31, 1999.

In upcoming months, the NCUA Board will address changes to the Fund to enact new requirements imposed by the *Credit Union Membership Access Act*.

News Briefs

- **Appeals Court Vacates AT&T** — On October 14, 1998, the U.S. Court of Appeals for the District of Columbia vacated the nationwide injunction imposed on federal credit unions October 25, 1996. The Court of Appeals also instructed Judge Thomas P. Jackson to dismiss the combined cases pending (*Piedmont State Bank, et. al. v National Credit Union Admin. and ABA v NCUA*) rendered moot by the *Credit Union Membership Access Act*.
- **Revolving Loan Fund Secures \$2 Million** — On October 21, 1998, the President signed the VA HUD Appropriations bill with an additional \$2 million earmarked for NCUA's Community Development Revolving Loan Fund.
- **FOM IRPS** — NCUA has begun summarizing the comments received on the field of membership proposal issued August 31. A final *Interpretive Ruling and Policy Statement* is expected to be considered by the Board at its December 17 open meeting.

NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

Norman D'Amours, Chairman
Yolanda T. Wheat, Board Member
Dennis Dollar, Board Member

Information about NCUA and its services may be secured by writing to the Office of Public and Congressional Affairs, or by calling 703-518-6300. News of what is happening at NCUA is available by calling 800-755-1030 or 703-518-6339.

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Most Payments Made Electronically Jan. 1, 1999

NCUA will provide most payments electronically beginning Jan. 1, 1999, to comply with the *Debt Collection Improvement Act* of 1996.

Credit unions and vendors that have not supplied NCUA with authorization for an automated clearing house (ACH) transfer need to do so as soon as possible. To date, NCUA has received 9,367 forms from credit unions. A final mailing in November will be made to collect the necessary deposit information from the 1,756 credit unions that have not yet responded.

Keep Numbers Current

Credit unions and vendors are responsible for keeping their deposit information up-to-date. If your financial institution has changed or merged since submitting your form to NCUA, please verify the accuracy of your current 9-digit routing number and account number with your original form and if necessary, submit an amended form as soon as possible.

If you have any questions, submit an E-mail to the Chief Financial Officer at ocfomail@ncua.gov, call 703-518-6582 or, write Mary McCarrick, NCUA Office of the Chief Financial Officer, 1775 Duke Street, Alex., Va. 22314-3428.



September 10, 1998 — Chairman Norman E. D'Amours welcomed Jong - Suk Park, Chairman & President of the Korea Deposit Insurance Corporation to NCUA. Chairman Park and his delegation visited NCUA to learn about the structure and operation of the NCUA Share Insurance Fund.

Ombudsman Resolves Complaints

Credit unions and their members have a forum at NCUA to resolve conflicts with one another and with NCUA regulatory procedures. Conflicts with examiners or examination and regulatory procedures that are not subject to the Review Committee or other formal review are under the purview of the agency's ombudsman. As ombudsman, Dorothy W. Foster has the following duties and responsibilities:

- Recommend solutions to resolve complaints;
- Refer complaints to other agency officials when appropriate;
- Follow up on Supervisory Review Committee decisions and refer any instances of agency retaliation to the appropriate office; and
- Make recommendations for changes as warranted.

Excluded from the ombudsman's purview are complaints that are:

- Subject to formal review according to *NCUA Rules and Regulations* or policy statements;
- Enforcement actions where a notice of charges have been filed;
- Matters in litigation;
- Matters involving a conservatorship or liquidation; or
- Matters within the Inspector General's jurisdiction.

The ombudsman acts independently of program functions and files activity reports with the NCUA Board.

Submit conflicts in writing by E-mail to dorothyf@ncua.gov or by postal service to Dorothy Foster, Office of the Executive Director, NCUA, 1775 Duke Street, Alex., VA 22314-3428.

Upcoming 1998 Board Agenda Items

- 1999 NCUA Operating Budget
- 1999 Operating Fee Scale for Credit Unions
- Proposed Supervisory Committee Regulation

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agency committee that thoroughly reviewed the corporate fee structure and corporates' ability to pay.

Proposals to Codify Policies

Statutory Lien Proposal

Federal credit unions may place a lien on the shares and dividends of a member who owes the credit union money under a 1982 agency policy. To codify this practice, the NCUA Board is seeking comments for 90 days on proposed rule Part 701.39 that updates, clarifies and converts the statutory lien policy to a regulation. The proposal also enhances credit union notice requirements to ensure that credit union members are made aware when a statutory lien is impressed on their accounts.

Leasing Proposal

The Board issued proposed rule Part 714 on leasing, with a 90-day comment period, to incorporate into regulations NCUA's long-standing policy concerning federal credit unions' leasing personal property to their members.

Charitable Contributions Proposal

Proposed rule Part 701.25 was issued to incorporate into regulation a long-standing policy that federal credit unions can, within limits, make charitable contributions and donations. The comment period is 90 days.

Advance Notice of Prompt Corrective Action

NCUA is seeking comments for 90-days on an advanced proposed rule to create a new, far-reaching, tiered system of net-worth-based capital standards for

federally insured credit unions.

The *Credit Union Membership Access Act* added new Section 216 to the *Federal Credit Union Act*, requiring NCUA to adopt a system of prompt corrective action that is indexed to five capital categories. Congress specifically stated that NCUA must adopt regulations that are "comparable" to Section 38 of the FDI Act of 1991. The five capital categories are:

1. Well Capitalized – net worth is 7 percent or more.
2. Adequately Capitalized – net worth is 6 percent or more.
3. Undercapitalized – net worth is less than 6 percent.
4. Significantly Undercapitalized – net worth is less than 4 percent in most cases.
5. Critically Undercapitalized – net worth is less than 2 percent.

If capital falls below the "well capitalized" level, a system of progressively more stringent requirements apply. While much of this new rule is dictated by statute, NCUA asks for input on the following important sections that must be decided by the agency:

1. Define a "complex" credit union.
2. Design a risk-based net worth requirement to apply to "complex" credit unions.
3. Design an alternative system of prompt corrective actions for "new" credit unions (less than 10 years old and less than \$10 million in assets).
4. Set standards and time frames for the Net Worth Restoration Plan for undercapitalized credit unions.

Management Interlocks Amendment Proposed

The Board issued a proposed rule change to implement statutory requirements and modernize and clarify Part 711, Management Interlocks, with a 90-day comment period.

The proposal raises the asset threshold for triggering the prohibition on serving dual management roles in a credit

union and another type of financial institution. It also contains two new regulatory exemptions to the bar on management interlocks.

Proposal Clarifies Officer Notification Rule

A proposed amendment to Section 701.14 (d)(1), was issued with a 90-day comment period, to clarify notice requirements and approval deadlines when officials and officers change at newly chartered or troubled credit unions.

Chartering & Insurance Changes

The Board approved an insurance conversion request for **St. Joe Valley CU**, St. Maries, Idaho. The \$5 million credit union is converting to non-federally insured status.

The Board also approved an insurance conversion request for **Employee Federal Credit Union**, Fort Wayne, Ind. The \$29.7 million credit union is merging with a state-chartered, privately insured credit union.

The Board approved a national field of membership amendment for **Southeast Corporate Federal Credit Union**, Tallahassee, Fla.



<http://www.ncua.gov>

Many publications, including NCUA News, are available to download directly from the NCUA web site.



Y2K Q&A

Here Are Answers to Some Frequently Asked Questions About Year 2000.

Q. *What Year 2000 items will our examiner be focusing on at our next examination?*

A. NCUA recently adopted the FFIEC's Year 2000 Workprogram Phase II. Examiners now follow the objectives of the workprogram, which include:

- Determine if the institution is handling Year 2000-related issues in a safe and sound manner and if the project is meeting established timelines and key milestone dates;
- Follow-up on actions taken and results since the last review;
- Determine whether the institution has an effective plan for testing renovated products and implementing those products;
- Assess the adequacy of contingency plans; and
- Determine whether further corrective action is necessary to assure that Year 2000 readiness is achieved.

NCUA *Letter to Credit Unions 98-CU-20* shares this workprogram with all federally insured credit unions. The NCUA examiner version contains minor modifications to the FFIEC checklists. The changes consist of altering the checklists to be credit union specific and adding NCUA's milestone dates.

Q. *How will examiners validate testing results?*

A. Examiners will not be validating or certifying the accuracy of test results. However, they will review the process from the standpoint of strategies employed, adequacy of written test plans, and evidence of the actual performance of steps contained in the test plans. Of primary importance is the process management has gone through in evaluating test results. NCUA *Letter 98-CU-13* details NCUA's expectations for testing.

Q. *Do I have to finish testing by year end?*

A. By year end, credit unions are expected to demonstrate progress in Year 2000 readiness testing to ensure that critical systems will be ready for implementation. NCUA anticipates testing will continue through the second quarter of 1999.

Q. *Will NCUA share the results of computer vendor reviews?*

A. NCUA *Letter 98-CU-11* discussed the results of the first ten vendor reviews. Subsequent reviews will be made available to the vendor's credit union clients by NCUA. Additionally, NCUA plans to post executive summaries of vendor reviews on our Internet site.

Q. *Are contingency plans still necessary? What should contingency plans address if my computer system is Year 2000 ready?*

A. Your contingency plan should be viewed as a "living document" and will be updated many times between now and the Year 2000. Initially, contingency plans focused on obtaining alternatives for mission critical systems that were in the process or in need of renovation. As systems are renovated and believed to be Year 2000 ready, contingency plans should focus on mitigating business continuity risks. The goal of business continuity contingency planning is to ensure critical functions (for example, share and loan services at a credit union) continue even if one or more critical systems fail. NCUA's *Letter 98-CU-12* provides insight into this type of planning.

Q. *How should my credit union be preparing for possible increased demands for currency during the period surrounding the century roll over?*

A. The FFIEC is developing a comprehensive guidance paper on liquidity/currency management. Meanwhile, some things credit unions should consider are:

- Developing *written plans* addressing possible increased needs for currency;
- Arranging a *committed line of credit*. This involves paying a fee for the assurance that funds will indeed be available when needed;
- Reviewing *unfunded lines of credit*;
- Gaining *assurances from your surety* that increased cash on premises will be covered by your bond, or obtaining a short term rider for increased coverage;
- Reviewing historical, *year-end currency needs* and planning for increased demands;
- Making arrangements to ensure *proprietary ATMs* have sufficient cash prior to and during the century roll over; and
- Most importantly, *communicating with your members* to put them at ease about their credit union's readiness for the century roll over.

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Community Development Credit Unions

Student Internships Enjoy Success

Fourteen college interns worked in community development credit unions during the past summer. The program is partially funded by stipends from technical assistance grants provided by the Community Development Revolving Loan Fund Program.

Initiated in 1996, the Student Internship Program fosters mentoring between large and small credit unions and students from local colleges and universities. The program offers college juniors and seniors invaluable training and enhances their awareness of the many career opportunities that credit unions offer.

"We hope NCUA continues this program for years to come. It is an excellent way of exposing young people to credit unions and job possibilities," Wayne Hendrickson, Branch V.P. of Daniels-Sheridan Federal Credit Union of Medicine Lake, Mont. said in evaluating the program.

Planning is underway for the 1999 summer program. Low-income credit unions that may wish to participate, should contact Joyce Jackson via E-mail at cdcumail@ncua.gov or by mail at the Office of Community Development Credit Unions, 1775 Duke Street, Alexandria, Va. 22314-3428.

Working Group Formed on Microenterprise Development

NCUA Office of Community Development Credit Unions officials Joyce Jackson and Delores Martin have joined representatives from 14 government agencies and the U.S. Senate to form an interagency working group to identify and improve communications, policy and regulatory issues in government funded programs concerned with community development.

CDFI Funds Awarded

The Treasury Department awarded four credit unions substantial core component awards. Appalachian Development FCU, The Plains, Ohio; Bethex FCU, Bronx, N.Y.; Neighborhood Trust FCU, New York, N.Y.; and Northeast Community FCU, San Francisco, Calif., received between \$210,000 and \$720,000 from the Community Development Financial Institutions Fund (CDFI) for 1998.

In addition, 18 credit unions received CDFI technical assistance awards ranging from \$23,000 to over \$54,000

ABOUT INVESTMENTS

Investment Policy Options

Many credit unions still authorize investments by type of security (i.e., treasuries, agencies, mortgage pools), while the new rule requires a more detailed investment policy. Under new Part 703.30, a credit union should look not only at type but also at the risk characteristics of its investments.

The revised rule offers each credit union a choice. Investment policy can place limits on the characteristics of investments to control interest rate risk, or a credit union can control its risk by establishing a policy that limits a security's market price change in stressed interest rate scenarios, e.g. +/- 300 basis points. Measuring risk can be an effective monitoring tool, and results can readily be compared to the credit union's policy limits. A similar analysis should also be performed on the portfolio in relation to net capital.



Y2K Q&A

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Addendum to Last Month's List of Vendor Reviews

The October issue of *NCUA NEWS* contained a list of the information system vendors serving the credit union community that had been or were scheduled for review. Unfortunately, the list did not include the initial group of vendors that have

undergone a review. *Letter to Credit Unions 98-CU-11* named ten vendors that had been reviewed. These vendors should have been included on last month's list of reviewed vendors — CompuSource Systems, Inc., Computer Consultants Corporation, C. U. Processing, Inc., CUSA Technologies, FedComp, Inc., Fiserv Summit, Fiserv Galaxy, Ultradata Corporation, Users, Inc., and XP Systems Corporation.



September 19, 1998 — Board Member Yolanda Townsend Wheat addressed the Oklahoma Credit Union League 64th Annual Meeting in Tulsa with an update on the status of implementation of H.R. 1151 and the proposed member business loan regulation. Pictured above are Bob Bianchini, President of the Oklahoma Credit Union League, Board Member Wheat and Don Stivers, Chairman of the Oklahoma Credit Union League and CEO of the Oil Capital Federal Credit Union.

Credit Unions Applaud New Call Report Software

All federally insured credit unions had their first opportunity to use NCUA's new Windows-based call report software in June 1998, and many users expressed their pleasure with the new program.

The shift to new software is evident by the illustrated table below:

	December 1997	June 1998	Percent Change
Windows Version	5,775	8,869	53.6% increase
DOS Version	2,306	1,291	44.0% decrease
Paper Filing	3,157	964	69.5% decrease

Of the 11,125 credit unions reporting, nearly *80 percent used the new Windows version*, 11.6% used the DOS version, and 8.7% filed a paper copy. More credit unions used a Windows version of the program in June than used the DOS and Windows versions *combined* last December. Plus, an astounding 70 percent of credit unions that filed a paper call report at year end filed a Windows report in June.

DOS Eliminated

The December 1998 call report cycle will end the use of DOS software. *Letter to Credit Unions 98-CU-14* announced in mid-1998 that NCUA will discontinue the DOS

version of the software with the 1998 reporting cycle. Anticipating little demand, DOS software will not be mailed with the call report supplies to all credit unions for the December 1998 reporting cycle. Credit unions that wish to use the DOS application may request the software by calling Customer Service at 1-800-827-3255. The final DOS version will be mailed to requesters in mid-December 1998. *Letter to Credit Unions 98-CU-14* is available on the website at www.ncua.gov.



October 8, 1998 — Officials from U.S. Central visited Board Member Dennis Dollar in Alexandria. From the left is Dennis Dollar; U.S. Central officials Dan Kampen, President/CEO; Francois Henriquez, Sr. Vice President/General Counsel; and Joe Karlin, Assistant Vice President, and NCUA Executive Board Assistant Kirk Cuevas. The corporate officials also visited the other NCUA Board members, providing an update on the corporate credit unions.

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